

1. POLITICALLY CORRECT CONTRABAND: THE EMERGENCE OF BALKAN SMUGGLING CHANNELS IN THE CONTEXT OF YUGOSLAV WARS AND INTERNATIONAL SANCTIONS

1.1. SMUGGLING AND STATE-BUILDING IN CROATIA, BOSNIA-HERZEGOVINA AND KOSOVO

The development of the smuggling channels in Croatia, Bosnia-Herzegovina and Kosovo was influenced by specific circumstances, non-existent in the other former Yugoslav republics and even less so in other transitional countries. The war in which the Croatian, Bosnian Muslim and Kosovo Albanian armies were fighting against a militarily superior and better armed adversary contributed to the creation of a socio-political environment where smuggling (especially of weapons) was not perceived as harmful to the interests of Croatia, Bosnia-Herzegovina, and Kosovo. On the contrary, **smuggling came to be regarded as essential for their survival.**

CROATIA

In May 1990 the first multi-party elections were held in Croatia, bringing the anti-Communist Croatian Democratic Community (HDZ) to power. Securing independence for Croatia was the HDZ's most important political goal. Almost instantly, an armed uprising occurred in the Serb-populated areas of Croatia, where the majority of the population refused to recognize the new Croatian government. This uprising was a clear sign that Yugoslavia would not dissolve peacefully and that the military force would play a crucial role in the imposition of the national interests of the new states.

According to the Socialist Yugoslavia's "Total People's Defense" military doctrine, apart from the Federal Yugoslav People's Army (YPA), each Yugoslav republic had its own Territorial Defense Force (TDF). These units had a separate command structure, were staffed only with soldiers who resided in a given republic and operated only on its territory. Shortly after the elections, the Croatian authorities started the process of transforming the local TDF into a regular Croatian army.² The federal authorities reacted immediately and the units of the YPA moved in to disarm the Croatian TDF. Almost all of the arms, belonging to its units, were confiscated and moved to the

² United Nations Commission of Experts, "Part III: General Studies, Section A: The Military Structure of the Warring Factions and the Strategies and Tactics Employed." *Final Report of the United Nations Commission of Experts Established Pursuant to Security Council Resolution 780 (1992)*. 27 May 1994. <http://www.ess.uwe.ac.uk/comexpert/REPORT_TOC.HTM>.

YPA's warehouses. **Setting up channels for illegal import of weapons to arm the newly created Croatian army was thus conceived as a necessary step**, assuming that Croatian authorities wanted to implement their plans for secession of Croatia. This is the reason why these steps came to be regarded in Croatia as a state-building, rather than as a criminal act. The spread of arms in Croatia, despite being a clear violation of a number of UN Security Council resolutions, which imposed arms embargo on all former Yugoslav republics, is still generally perceived in Croatia as a legitimate step, needed to secure the republic's independence.

There were two main channels for smuggling weapons into Croatia in the discussed period:

- The majority of infantry weapons smuggled into Croatia were Soviet-designed "imports" from Hungary, Romania, and other former Eastern Bloc countries. Most of these entered Croatia through Slovenia and especially through Hungary. These channels were developed and controlled by numerous former members of YPA and the Yugoslav secret services, who were of Croat origin and who decided to side with Croatia when it took the pro-independence course. The most prominent among them was Martin Spegelj, the new Croatian Defense Minister and until his retirement one of the highest ranking YPA generals.³

The Argentinean Connection

The official investigation in Argentina showed that the then-President Menem was involved in the sale of weapons to Croatia. In late 1991 (when the UN Security Council Resolution 713, dated 25 September 1991, imposing international arms embargo against all republics of the former Yugoslavia was already in force), Menem signed two secret presidential decrees, authorizing the sale of 6,500 tons of weapons to Panama. In fact, the weapons were transported to Croatia by vessels of the Croatian state-owned company *Croatia Line*. In 1992, another secret presidential decree authorized the Argentinean state-owned *Fabricaciones Militares* company to sell \$51 million worth of weapons to Bolivia. This shipment, which included 8,000 automatic rifles, 18 155-mm cannons, 2,000 automatic pistols, 211,000 hand grenades, 3,000 Pampero rockets, 30,000 rifle grenades, 3,000 mines, 60 mortars and several million rounds of ammunition, was also diverted to Croatia. In 1996, when the case was investigated, Bolivian government requested an official statement from the Argentinean authorities that Bolivia did not purchase these weapons.⁵

- Another important channel involved illegal imports from South America. A vital role here was played by members of the Croatian diaspora, which was the largest and best organized of all Yugoslav nations. Croatian émigrés contributed the lion's share of funds for purchase of weapons, and in most cases also organized the purchase and shipment of weapons, especially from Argentina, where the Croatian community was the most numerous.⁴

and controlled them throughout the war.⁶ It is impossible to estimate the full quantity and value of weapons smuggled into Croatia while the republic was subject to international arms embargo. No data is available for 1991 and 1992, when most of the weapons were smuggled into Croatia. **In the period 1993 – 1995 alone, Croatia**

³ Laura Silber and Allan Little. *Yugoslavia: Death of a Nation*. New York: Penguin Books, 1997, pp. 116-117.

⁴ Sean Gervasi. "Germany, US, and the Yugoslav Crisis." *Covert Action Quarterly*, no. 43. Winter 1992-93. <<http://www.covertaction.org/yugo4.htm>>; "Croatia Trying to Trace Missing Wartime Donations." *Balkan Peace*. 2 September 2002. <<http://www.balkantimes.com/html2/english/020805-SVETLA-002.htm>>.

⁵ Brian Wood and Johan Peleman. "Chapter 6: Mysterious Ships." *The Arms Fixers: Controlling the Brokers and Shipping Agents*. 25 November 1999. <<http://www.nisat.org/publications/armsfixers/Chapter6.html>>.

⁶ John Hatzadony. "The Croatian Intelligence Community." *Federation of American Scientists: Intelligence Resource Program*. 20 December 2001. <<http://www.fas.org/irp/world/croatia/hatzadony.html>>.

imported \$308 million worth of weapons.⁷ Spegelj, the man who designed the weapons smuggling schemes in Croatia was forced to resign as Defence Minister in July 1991 when the war in Croatia started, and was excluded from the smuggling operations. These soon diverted from their original "state-building" purpose and turned into a business transaction which offered numerous opportunities for personal enrichment to the new Defence Minister Gojko Susak and other Croats from Herzegovina, who came to dominate both the Croatian government and the smuggling operations.

Multi-Ethnic Arms Trade in Bosnia

The first weapons smuggling channels in Bosnia-Herzegovina were set up by the head of the KOS (Counter – Intelligence Service). He made an agreement with the Bosnian Defense Minister (a Muslim by origin) not to interfere with the shipment of weapons sent from Serbia through Bosnia to Serbian-held territories in Croatia. In return, the secret service deflected some of the weapons to Bosnian Muslim army-in-the-making. Occasionally, a police patrol not instructed to let the transports through intercepted trucks loaded with weapons (for example, on the night of 9 April 1992 three trucks, transporting 1,119 automatic rifles were stopped), but as soon as the word got to the Minister or his associates, the "misunderstanding" was cleared up.⁸

BOSNIA-HERZEGOVINA

The development of the smuggling channels in Bosnia-Herzegovina followed a similar pattern as in Croatia. The first multi-party elections were won by three ultra-nationalistic parties: the Party for Democratic Action (SDA – the Bosnian Muslim party), the Serbian Democratic Party (SDS) and the Croatian Democratic Community (HDZ). They formed a temporary government coalition, but the sharp disagreement over the future status of Bosnia-Herzegovina soon pitted SDS (and with it the Bosnian Serb community) against SDA and HDZ (and Bosnian Muslim and Bosnian Croat communities). The increasing uncertainty and insecurity, and **the prospect of Yugoslavia's disintegration created a fertile ground for profitable arms trade.**

When the war in Bosnia-Herzegovina started, Bosnian Muslims were by far the most poorly armed side in the conflict and were badly dependent on illicit imports. **The crucial role in the smuggling of arms to Bosnia-Herzegovina was played by the Third World Relief Agency (TWRA):⁹**

- TWRA was founded in 1987 in Vienna as a humanitarian agency for Muslims. In 1992, it opened an office in Sarajevo and started to cooperate with the Bosnian government. It became the main financier of and mediator in the smuggling of weapons for the Bosnian Muslim army. TWRA's head, a Sudanese citizen Elfatih Hassanein was named by the then-Bosnian Minister of Foreign Affairs as "financial representative of the Bosnian government" and as such he opened an account at *Die Erste Osterreich Bank* in Vienna.
- **Between 1992 and 1995, around \$350 million were deposited on this account, donated by Saudi Arabia, Iran, Sudan, Turkey, Brunei, Malaysia and Pakistan.**

⁷ "Arms Transfer Deliveries and Total Trade, 1985-1995, by Region, Organization, and Country." *US Arms Control and Disarmament Agency: World Military Expenditures and Arms Transfers*. 1996. < http://www.state.gov/www/global/arms/wmeat96/100_150.pdf > .

⁸ Tim Judah. *The Serbs: History, Myth, and the Destruction of Yugoslavia*. New Haven: Yale University Press, 1997, pp. 193-194

⁹ John Pomfret. "How Bosnian Muslims Dodged Arms Embargo." *The Washington Post*. 22 September 1999.

Nijaz Dzafic. "Sta sve veze SDA i agenciju za pranje opljackanog novca." *Dani* no. 122. 1 October 1999. < <http://www.bhdani.com/arhiv/1999/122/t223a.htm> > .

- Most of the weapons supplied through TWRA were Soviet-made and bought in various Eastern European countries. Initially, weapons were delivered to the Maribor airport in Slovenia, and from there transported overland through Croatia. In August and September 1992 more than 120 tons of weapons arrived to Maribor. At the end of September, Croatia closed down this channel.
- The cut-off Croatian route was temporarily substituted by the far more risky helicopter deliveries directly to Muslim-held Tuzla and Zenica airports in Bosnia-Herzegovina.
- In 1993, the German police arrested 30 Bosnian Muslim and Turkish arms dealers. Bosnians were trying to negotiate the purchase of \$15 million worth of light arms. The investigation showed that TWRA was implicated as the financial broker of the deal.
- TWRA started to abandon its activities in Bosnia in 1994, as can be seen from the amount of money arriving to its *Die Erste Osterreich Bank* account. In 1993, \$231 million were deposited, while both in 1994 and 1995, the amount was only \$39 million.
- The Austrian anti-terrorist police unit raided the TWRA headquarters in September 1995 and confiscated enormous amounts of documents, related to arms smuggling and other illegal activities of the agency. Hassanein moved to Istanbul, but remained in the close contacts with the Bosnian Muslim authorities. According to the estimates, based on the Austrian investigation, more than half of the donated \$350 million were used for purchasing weapons for the Bosnian Muslims.

The Iranian Affair

The first Iranian Boeing 747 loaded with arms and other supplies landed in Zagreb, Croatia, in the spring of 1994. The Croatian government blocked the shipment and asked the US Ambassador to Croatia, Peter Galbraith, for instructions. Galbraith and the then-National Security Council chief Anthony Lake urged President Clinton not to block the Iranian arms delivery. Clinton thus directed Galbraith to inform the Croatian government that he had "no instructions" for them, which in practice gave the green light to illegal deliveries of Iranian weapons to Bosnia. In 1996, the US Senate Intelligence Committee and the House Select Subcommittee to Investigate the United States Role in Iranian Arms Transfers to Croatia and Bosnia launched an investigation into the affair. As a result, the House of Representatives referred criminal charges against Lake and Galbraith to the Justice Department.¹¹

After the TWRA's retreat, Iran took over as the most important supplier of weapons to Bosnia-Herzegovina. The investigation showed that **the value of weapons smuggled into Bosnia in 1994 and 1995 reached between \$500 and 800 million.**¹⁰

Bosnian government was buying weapons also from European suppliers. In May 1998 a Belgian citizen of Hungarian origin, Geza Mezosy, was convicted to two years' imprisonment for selling and smuggling weapons to Bosnia-Herzegovina. One of the largest European arms traders who is suspected also of selling weapons to a number of African countries, including Uganda, Ethiopia, Sudan and the Democratic Republic of Congo, stated on the trial that he was selling weapons to Bosnian government from "humanitarian reasons."¹²

¹⁰ United States Congress. "Clinton-Approved Iranian Arms Transfers Help Turn Bosnia into Militant Islamic Base." *Congressional Press Release*. 16 January 1997. < <http://globalresearch.ca/articles/DCH109A.html> > .

¹¹ Ibid.

¹² Wood and Peleman. "Chapter 4: Shopping in the Shadows." *The Arms Fixers*. < <http://www.nisat.org/publications/armsfixers/Chapter4.html> > .

KOSOVO

The gradual disintegration of Yugoslavia which started in the late 1980s and led to the break-up of the country and to the war in 1991 was a hard blow for Kosovo. By far the most underdeveloped part of the former country, with very little industry, Kosovo depended heavily on "funds for underdeveloped regions," contributed by the wealthier Yugoslav republics. With the disintegration of Yugoslavia in 1991, the Kosovo Albanians were left practically on their own. All the outside financial help was cut off. Kosovo's industry, mismanaged for decades and by 1991 completely deprived of investment, was brought virtually to a halt. Subsistence agriculture, the remittances from the members of the large and well-organized diaspora, living and working in Western Europe, and the gray economy were the only sources of revenue available to Kosovo Albanians in the 1990s.

Kosovo Albanians have been associated with the European drug trade for decades. Their presence has been felt especially on the heroin markets in Germany, Austria and Switzerland. Being able to freely travel between Istanbul and Western Europe, they developed elaborate drug smuggling channels. Apart from remittances from abroad, the drug money was the most important pillar the Kosovo Albanian-organized social and health care and education were based on after 1991. By 1994, and especially after the Dayton Agreement (November 1995), which completely ignored the Kosovo issue, the majority of Kosovo Albanians became disillusioned by the peaceful resistance policy, led by Ibrahim Rugova, Kosovo's unofficial

"president," and started to turn towards the armed resistance. Again, remittances from the Kosovo Albanians working abroad (they supplied roughly one third of the funding, setting aside 3 percent of their monthly income for the purpose) and the drug money were the primary sources for funding the arming of the newly-created Kosovo Liberation Army (KLA).¹³

The Crisis in Albania and the KLA

The 1997 crisis in Albania gave an enormous boost to KLA's heroin-for-weapons trade. Numerous arms depots in Albania were raided. According to reports, more than 200,000 AK-47 rifles, 350,000 M44/SKS rifles, 40,000 automatic pistols, 2,500 grenade launchers and 700 mortars, 1.5 million rounds of ammunition, tens of thousands of hand grenades and hundreds of thousands of mines were stolen. Less than 25 percent were recovered. The majority was sold to the KLA. A report described the arms market in Tropoje, an Albanian town one kilometer away from the Kosovo border, where in June 1998 a Kalashnikov could be bought for as little as 150 DEM. At the time, the town was full of the KLA fighters, whose training camps were nearby and who would come to town to buy weapons for the ever rising number of volunteers joining the KLA.¹⁴

The *Observatoire Geopolitique des Drogues*, a Paris-based institute, noted already in 1994 that heroin shipments from Kosovo were used for financing large purchases of weapons and that the US priorities in the Balkans "dictated turning a blind eye to a drug trade that financed the arming of the KLA."¹⁵

¹³ Jasmina Udovicki and James Ridgeway, editors. *Burn This House: The Making and Unmaking of Yugoslavia*. London: Duke University Press, 2000, pp. 329-330

¹⁴ Alan Marshal. "CIA and the Balkans." *Intel Briefing*.
< <http://www.intelbriefing.com/afi/afi010729.htm> > .

Jerry Seper. "KLA Finances War with Heroin Sales." *The Washington Times*. 3 May 1999,
< <http://nationalism.org/sf/Articles/a74.html> > .

Judah. *The Serbs*, p. 321

¹⁵ "The KLA and the Heroin Craze of the 90s." *Montreal Gazette*. 15 December 1999.
< <http://www.balkanpeace.com/cib/kam/kosd/kosd01.shtml> > .

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The smuggling channels, developed in Croatia and Bosnia-Herzegovina in 1990 – 1991, and in Kosovo between 1994 and 1998 had an enormous impact on the process of Yugoslavia's disintegration. Enabling Croats, Bosnian Muslims and Kosovo Albanians to at least narrow the gap in the military strength between themselves and the Serbs, they played a crucial role in securing independence for Croatia and Bosnia-Herzegovina, and semi-independence for Kosovo. As such, they continue to be viewed by the majority of Croats, Bosnian Muslims and Kosovo Albanians not as criminal acts, but rather as legitimate, if not even legal, state-organized covert operations. This presumption needs to be seriously challenged, especially since soon afterwards, these "state-building" smuggling channels were turned by some of the very same people who developed them into clearly criminal routes for smuggling drugs, stolen vehicles, contraband goods, and human beings.

1. 2. SURVIVING UNDER SANCTIONS: SERBIA AND MONTENEGRO

Unlike the other republics of the former Yugoslavia, Serbia and Montenegro (which constituted the Federal Republic of Yugoslavia after 1991), had no need to import arms, since they "inherited" the lion's share of the YPA's arsenal. Because of their role in the war in Croatia and in Bosnia-Herzegovina, the UN Security Council imposed international sanctions on the two republics in the summer of 1992. The Serbian province of Vojvodina has always been known as "the bread basket" of Yugoslavia and even under the sanctions, Serbia and Montenegro had little problems in producing enough food to cover the domestic needs. Serbia was also (apart from Slovenia) the only former Yugoslav republic which was an energy exporter and as such had enough reserves to "survive" few years of sanctions.¹⁶ What Serbia and Montenegro lacked, above all, was oil. The Serbian war machine in Bosnia especially depended on smuggled fuel, without which it would have been brought to a standstill. Almost immediately after the sanctions were imposed, the Serbian State Security Service (SDB, *Sluzba drzavne bezbednosti*) organized smuggling channels for supplying the rump Yugoslavia with oil.

SERBIA

The Serbian SDB was a direct successor of the former Yugoslavia's SDB, inheriting most of its agents, assets and practices. Yugoslav SDB had a long established practice of cooperating with the criminal underworld. Numerous criminals, among whom Zeljko Raznjatovic Arkan is the most well-known, were recruited as its assassins and as natural-born operatives for SDB's drugs and cigarettes smuggling operations. These were used for raising funds for various covert operations. The Yugoslav SDB was funded also with money, coming from sales of goods (including drugs), seized by the customs. This is another practice copied by the Serbian SDB, and the link between SDB and the Customs Administration is evident by the fact that Mihajl Kertes, the former deputy-chief of the SDB became the head of Serbian Customs under Milosevic. Yugoslav SDB set up numerous companies abroad, which were used as cover for intelligence gathering and for money laundering. After the breakup of Yugoslavia,

¹⁶ Of course, a decade of mismanagement, war and sanctions turned Serbia from energy exporter to importer by 2001. US Energy Information Administration. "Enforcement of Serbian Sanctions and Embargo." *US Energy Information Administration*. 10 June 1999.
< <http://www.eia.doe.gov/cabs/serbsanc.html> > .